R. J. REYNOLDS TOBACCO COMPANY

ANNUAL REPORT 1956

R. J. REYNOLDS TOBACCO COMPANY
WINSTON-SALEM, NORTH CAROLINA

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Annual Report

1956

TO THE STOCKHOLDERS

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Comparative Summary

	1956	1955
SALES, EARNINGS AND DIVIDENDS		
Net Sales	$957,366,846	$866,425,772
Net Earnings	61,912,680	53,267,637
Net Earnings as a percentage of Net Sales	6.47%	6.15%
Earnings per share on common stocks *before* taxes on income*	$ 13.43	$ 11.85
Taxes on income per share of common stocks*	7.52	6.80
Net Earnings per share on common stocks*	5.91	5.05
Dividends per share on common stocks	3.10	2.60
Dividends on Preferred Stock	2,762,959	2,794,023
Dividends on common stocks	30,706,583	25,737,186
FINANCIAL POSITION AND EQUITIES AT YEAR END		
Total Assets	$659,393,945	$611,641,113
Current Assets	611,099,605	566,734,981
Current Liabilities	147,564,749	121,438,965
Net Current Assets—Working Capital	463,534,856	445,296,016
Real Estate, Machinery and Equipment—net	45,011,682	41,486,151
Funded Debt	110,000,000	115,000,000
Equity of holders of Preferred Stock	68,483,400	70,686,500
Equity of holders of common stocks	333,345,796	304,515,648
Number of stockholders at year end	81,091	78,995
Number of regular employees at year end	11,977	12,011

* Based on 10,000,000 shares.

R. J. Reynolds Tobacco Company

TO THE STOCKHOLDERS

The progress of the Company continued in 1956, with both earnings and sales reaching new highs. Net earnings of $61,912,680 were $8,645,043 more than in 1955, the next highest year. Sales of $957,366,846 were $90,941,074 greater than in 1955 and $75,942,547 greater than in 1952, the previous high year.

Earnings on the 10,000,000 shares of common stocks, after payment of dividends on the Preferred Stock, were $5.91 a share, or 86 cents more than in 1955.

Dividends Increased for Third Successive Year

For the third successive year, dividends paid on the common shares were increased. Total dividends per share amounted to $3.10 in 1956, compared with $2.60 in 1955, $2.40 in 1954 and $2.00 in 1953.

Dividends on the common shares consisted of the 70-cent payment in the first quarter and payments of 80 cents in each of the last three quarters. The 80-cent quarterly rate is the highest ever paid on the common shares. Dividend payments, including those on the Preferred Stock, totaled $33,469,542, or 54.1% of net earnings.

DISPOSITION OF INCOME 1956

45.9%	33.4%	7.8%	6.4%	3.5%	3.0%
FEDERAL EXCISE TAXES	LEAF TOBACCO, OTHER MANUFACTURING COSTS AND FREIGHT	TAXES ON INCOME	SELLING, ADVERTISING, ADMINISTRATIVE, INTEREST AND OTHER EXPENSES	DIVIDENDS	EARNINGS RETAINED

Sales at Record High

The dollar sales volume was 10.5% higher than in 1955 and 8.62% more than in 1952 when the previous high was reached. After the decline in sales which occurred in the two years following 1952, when the industry's production had reached the all-time high level, the Company's sales moved upward in 1955. This trend continued in 1956 and a new high record was established by the Company in the number of cigarettes shipped for the domestic market.

CAMEL Cigarettes continue as the largest selling brand in the country, although shipments of CAMEL and CAVALIER Cigarettes were less in 1956 than in the previous year. The decline in volume of these two brands reflects the over-all trend toward filter-tip cigarettes.

It is believed that in 1956 some 30% of all cigarettes sold in the domestic market were filter tipped. When it is recalled that as recently as 1953 only 3% of cigarettes were of this type, the rapidly growing popularity of filter-tips is evident. This percentage increased to approximately 10% in 1954 and to about 20% in 1955.

The Company has two entries in the filter-tip field—its WINSTON brand and its new SALEM brand. WINSTON Filter-Tip Cigarettes, which were first marketed in 1954, attained national leadership in the filter-tip field in 1955. In 1956 the volume of WINSTON Cigarettes expanded very substantially and the margin of leadership increased.

National production of smoking and chewing tobaccos continued the decline of recent years. Although the reduction in the use of tobacco in these forms affected the Company's sales of smoking and chewing tobaccos, PRINCE ALBERT Smoking Tobacco and DAYS WORK Chewing Tobacco remain the largest selling brands in their respective fields.

In view of the greater number of brands and kinds of cigarettes being offered to the public, it has been necessary for the Company to intensify its promotional and sales activities. The Company's products, particularly its cigarette brands, are widely advertised through television and radio, in magazines and newspapers and by outdoor posters and point-of-sale display material. Among the television programs being wholly or jointly sponsored by the Company are "I've Got A Secret", "The Phil Silvers Show", "The Bob Cummings Show", "Mr. Adams and Eve", "Wire Service" and "People Are Funny".

New Products Introduced

Late in April 1956, after an extensive period of experimentation, the Company introduced SALEM Cigarettes and by June achieved national distribution of this brand. SALEM, a king-size filter-tip cigarette with menthol-fresh flavor, in the few months that it has been on the market has experienced an ever-increasing sales growth. The popularity of the brand exceeded even the most optimistic estimates and expansion of production facilities has become necessary. SALEM Cigarettes are already an important factor in the Company's over-all business.

Another new product developed after a long period of research and introduced in the market

Camels, Winstons, Salems and Cavaliers being loaded for OPERATION DEEP FREEZE

in 1956 is CARTER HALL Smoking Tobacco. This is a mild, aromatic blend of outstanding quality packaged in a convenient pouch. CARTER HALL has not as yet been distributed on a national basis but has been made available in certain territories throughout the country.

Expansion of Manufacturing and Processing Facilities

Growth of the Company's business and new improvements in equipment and processes have necessitated substantial expenditures. During 1956 the outlay for plant and equipment was $9,037,500, of which by far the larger part was for new cigarette machinery and expansion of manufacturing facilities in existing buildings. Depreciation and obsolescence in the amount of $5,059,382 was charged to earnings. At the close of the year, after making adjustments for disposals, the gross real estate, machinery and equipment account stood at $78,692,520.

In Winston-Salem, North Carolina, the Company is constructing an additional tobacco processing plant, an enlarged aluminum foil rolling and processing plant, and an addition to the Research Building that will double the facilities available for the Company's important research activities. Near Lexington, Kentucky, there are being constructed, on a large tract recently acquired, a leaf tobacco processing plant and facilities for the storage of leaf tobacco. Some of these facilities will be completed in 1957 and others not until the following year. On the basis of approved plans, it is estimated that capital expenditures in 1957 will exceed $20,000,000.

Borrowings Increased

At the close of the year, short-term borrowings were $58,450,000, or $20,450,000 more than at the close of 1955. The increase was occasioned by larger inventory requirements, which stood at $557,247,333 at the end of 1956 compared with $510,932,136 for the previous year. Substantially all of the increase was in leaf tobaccos.

In view of the greater volume of business, it became necessary to enlarge materially the Company's leaf tobacco stocks. Acquisitions from the 1956 flue-cured tobacco crop were made at an average price somewhat higher than from the 1955 crop. Marketing of the 1956 Burley tobacco crop has not yet been completed but the large portion of that crop sold prior to the end of 1956 brought an average price that was substantially higher than the price at which the 1955 crop was sold.

Long-term or funded debt was reduced by required payments of $5,000,000. Such debt has been brought down from the high of $150,000,000 in 1948 to $110,000,000. The latter figure does not include the amortization payments of $5,000,000 to be made in 1957 and carried in the balance sheet as current debt.

Due to increased short-term borrowings and the higher interest rates that have prevailed, the interest expense for this debt was considerably more in 1956 than in the previous year. Interest on short-term borrowings in 1956 amounted to $1,238,806 as against $741,302 in 1955.

New Profit Sharing Plan Adopted

At the meeting of stockholders held last April, the new Profit Sharing Plan was approved. This plan provides for the participation, on a deferred basis, by regular employees having at least three years of service, in a specified portion of the Company's annual profits. The share of profits for distribution under the plan is reduced by the amount payable under the profit participation plan set forth in Article XII of the By-Laws. This latter plan was originally established in 1912 and was amended in 1949 in several material respects, including provision for its gradual termination over a ten-year period expiring at the end of 1958.

For 1956, the share of the profits payable to the Trustee under the new Profit Sharing Plan for credit to the accounts of 10,251 officers and employees entitled to participate therein amounted to $4,020,183. The employees' individual shares are determined in proportion to their respective salaries or wages for the year. Under the terms of the plan, one-third of the Company's annual payments into the Trust is to be invested in New Class B Common Stock of the Company and the balance in such assets as shall be selected by the Trustee.

Under the plan set forth in Article XII of the By-Laws, for 1956 the amount of $853,470 was paid to 1,358 officers and employees. This compares with $1,019,349 paid for 1955 to 1,427 officers and employees.

Employees' Retirement Plan Amended

Also at their meeting held last April, the stockholders approved amendments to the Employees' Retirement Plan, established in 1946. These amendments liberalized retirement allowances, geared benefits more closely with current old age benefits under the Social Security Act, as amended, and corrected certain inequities.

Painted signs on principal highways to Winston-Salem invite visitors to the Company's plants.

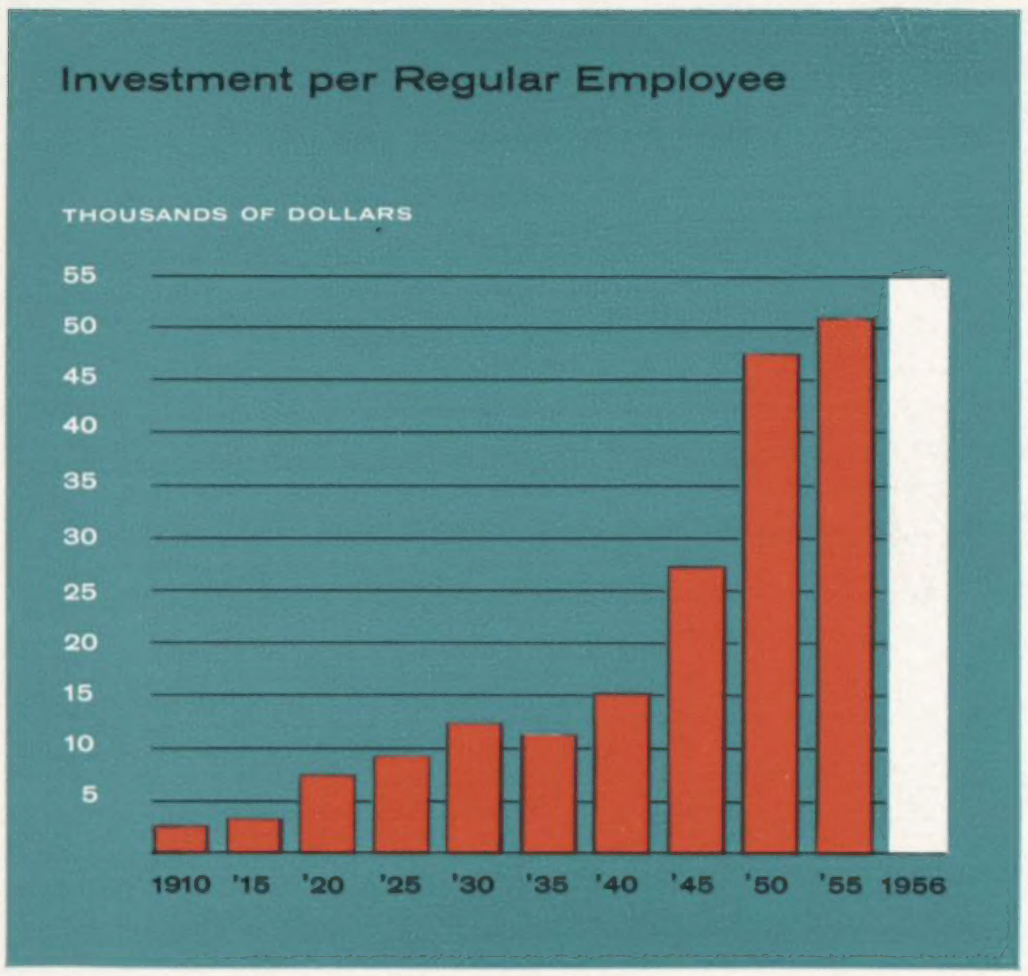
At the end of 1956, the book value of assets, exclusive of accrued interest not yet received, held by the trust established under the Employees' Retirement Plan amounted to $36,370,669. The market value of the assets held was substantially greater.

Employee Morale High

Your management believes that employee morale has never been better than at present. Employees at all levels are more keenly aware than ever of the importance of efficiency, avoidance of waste and increased production. The realization that all who meet the specified service requirement now share in profits has been an important contributing factor in their increased efforts and interest. The accomplishments of the Company in 1956 testify to the diligence, cooperation and loyalty of the thousands of men and women employed.

The accompanying chart shows the great increase that has occurred in the investment behind each regular employee's job. Since 1910 this investment has multiplied twenty times and even since 1945 has almost doubled. In 1956 the investment per employee averaged $55,055, among the highest in all industries.

At the end of the year, there were 11,977 regular and 3,712 seasonal employees, compared with 12,011 regular and 2,192 seasonal employees at the end of 1955.



Number of Stockholders at New High

The marked growth within recent years in the number of stockholders has continued. At the close of the year, there were 81,091 holders of record, including 71,510 holders of common shares and 9,581 holders of Preferred Stock. Holders of common shares increased by 2,468 during the year.

On behalf of the management and the Company's employees, appreciation is expressed to the share owners for their continuing helpfulness, interest and confidence.

Respectfully submitted for the Board of Directors,

Chairman Board of Directors

President

January 19, 1957.

Products

CAMEL | SALEM

WINSTON | CAVALIER

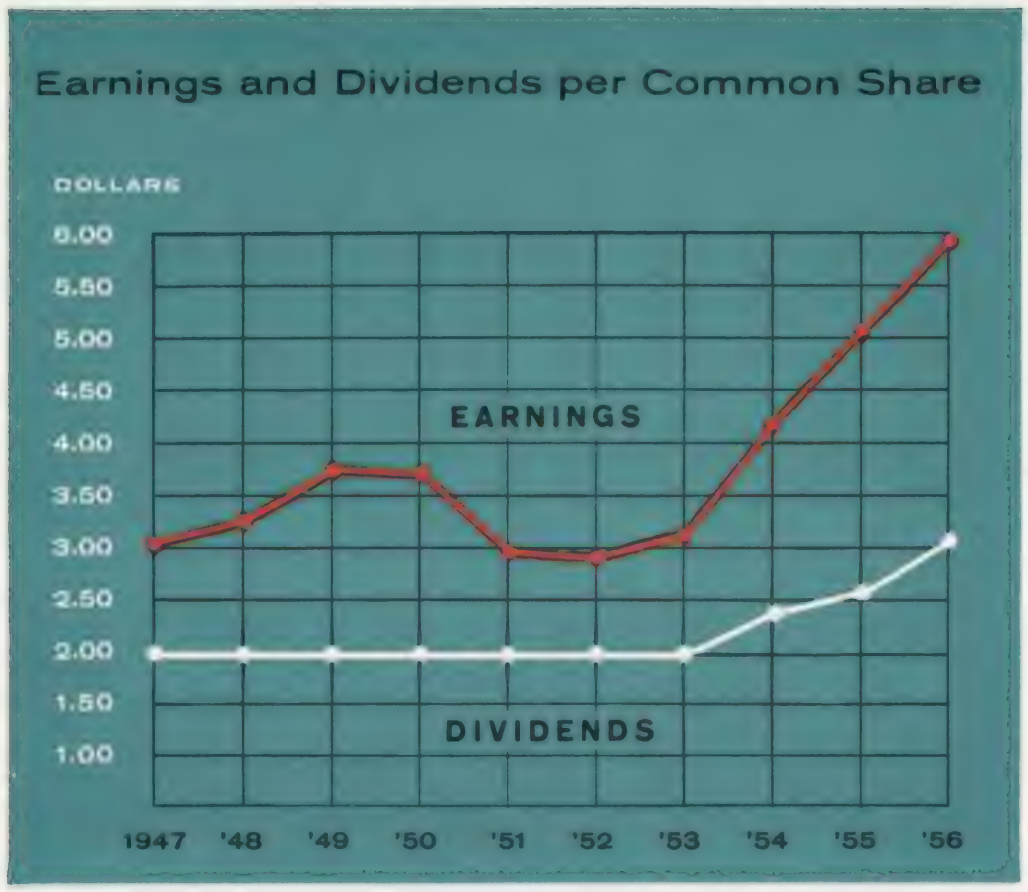
CIGARETTES

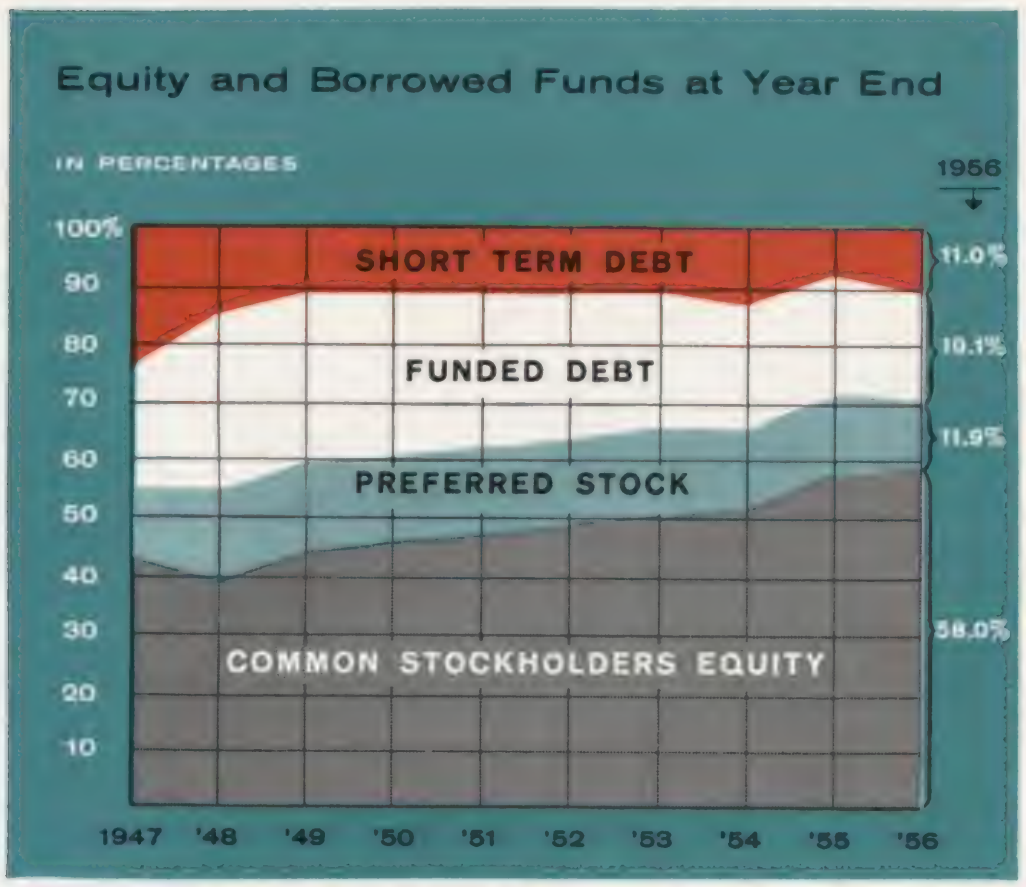
SMOKING TOBACCO

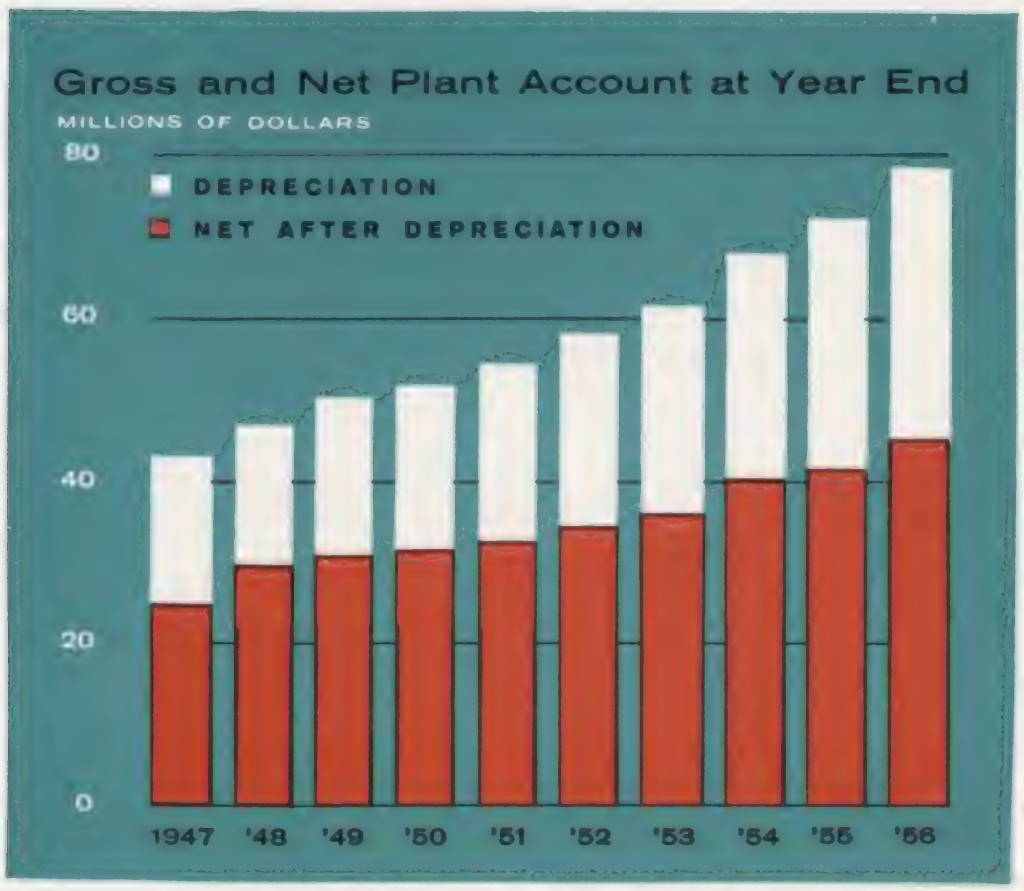
PRINCIPAL BRANDS

OF

CHEWING TOBACCO







R. J. REYNOLDS TOBACCO COMPANY

SALES, EARNINGS AND DIVIDENDS

(amounts in thousands of dollars)

Net Sales
Income before taxes
Federal and state taxes on income
Net Earnings
Dividends on Preferred Stock
Dividends on common stocks

FINANCIAL POSITION AND EQUITIES

(amounts in thousands of dollars)

Current Assets
Federal and state tax liabilities
Other current liabilities
Working Capital
Real Estate, Machinery and Equipment—net
Total Assets
Funded Debt
Equity of holders of Preferred Stock
Equity of holders of common stocks

FINANCIAL STATISTICS

Income taxes per share of common stocks*
Earnings per share on common stocks*
Dividends per share on common stocks
Book value per share of common stocks*

*Based on 10,000,000 shares.

10 YEAR RECORD

CONDENSED COMPARATIVE FINANCIAL DATA

	YEAR ENDED DECEMBER 31								
	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947
	$957,367	$866,426	$814,274	$876,189	$881,424	$814,217	$759,856	$746,345	$724,921	$708,494
	137,103	121,268	103,343	102,873	95,514	92,177	77,979	68,925	60,939	56,703
	75,190	68,000	58,516	68,701	63,565	60,060	37,721	28,471	26,322	24,571
	61,913	53,268	44,827	34,172	31,949	32,117	40,258	40,454	34,617	32,132
	2,763	2,794	2,894	2,934	2,934	2,934	2,934	2,934	1,994	1,764
	30,707	25,737	23,732	19,756	19,723	19,715	19,714	19,661	20,000	20,000
	$611,100	$566,735	$574,025	$558,394	$553,200	$540,646	$518,122	$493,678	$497,691	$430,381
	71,202	69,574	62,279	71,513	65,237	60,594	38,146	28,971	27,065	25,931
	76,363	51,865	82,593	66,189	71,979	67,158	70,185	66,501	83,397	108,778
	463,535	445,296	429,153	420,692	415,984	412,894	409,791	398,206	387,229	295,672
	45,012	41,486	40,259	36,395	34,551	32,751	31,611	31,153	29,628	24,968
	659,394	611,641	617,636	598,609	591,641	577,886	553,997	528,529	530,698	458,199
	110,000	115,000	120,000	125,000	130,000	135,000	140,000	145,000	150,000	92,000
	68,483	70,686	73,377	75,000	75,000	75,000	75,000	75,000	75,000	49,000
	333,346	304,516	279,386	260,907	249,425	240,133	230,666	213,056	194,187	182,489
	$ 7.52	$ 6.80	$ 5.85	$ 6.87	$ 6.35	$ 6.00	$ 3.77	$ 2.84	$ 2.63	$ 2.45
	5.91	5.05	4.19	3.12	2.90	2.92	3.73	3.75	3.26	3.03
	3.10	2.60	2.40	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	33.33	30.45	27.94	26.09	24.94	24.01	23.06	21.30	19.42	18.25

R. J. REYNOLDS TOBACCO COMPANY

Financial Position

ASSETS

	1956	1955
CURRENT ASSETS:		
Cash	$ 23,697,247	$ 25,798,949
Accounts receivable from customers (less discounts)	30,155,025	30,003,896
Leaf tobacco, supplies, manufactured products, etc.—at average cost	557,247,333	510,932,136
TOTAL CURRENT ASSETS	611,099,605	566,734,981
REAL ESTATE, MACHINERY AND EQUIPMENT—at cost	78,692,520	72,865,386
Less depreciation and obsolescence	33,680,838	31,379,235
NET REAL ESTATE, MACHINERY AND EQUIPMENT	45,011,682	41,486,151
OTHER ASSETS:		
Investments in non-competitive companies	225,000	225,000
Sundry receivables and deposits	1,585,776	1,623,506
Brands, trade-marks and good will	1	1
Prepaid expenses and deferred charges	1,471,881	1,571,474
TOTAL OTHER ASSETS	3,282,658	3,419,981
	$659,393,945	$611,641,113

December 31, 1956 WITH COMPARATIVE FIGURES FOR 1955

LIABILITIES	1956	1955
CURRENT LIABILITIES:		
Accounts payable	$ 9,681,341	$ 5,849,823
Notes payable	58,450,000	38,000,000
Funded debt due within one year	5,000,000	5,000,000
Federal and state taxes (accrued and contingent)	71,202,497	69,574,253
Sundry accrued accounts	3,230,911	3,014,889
TOTAL CURRENT LIABILITIES	147,564,749	121,438,965
FUNDED DEBT (Note A):		
2½% Promissory Notes	58,000,000	62,000,000
3% Debentures, due 1973	52,000,000	53,000,000
TOTAL FUNDED DEBT	110,000,000	115,000,000
CAPITAL AND EARNINGS RETAINED:		
Preferred Stock—Par $100		
Authorized and issued 750,000 shares		
3.60% Series	49,000,000	49,000,000
4.50% Series	26,000,000	26,000,000
Common Stock—Par $10		
Authorized and issued,		
1956—376,378 shares	3,763,780	
1955—395,770 shares		3,957,700
New Class B Common Stock—Par $10 (Note B)		
Authorized 15,000,000 shares		
Issued, 1956—9,623,622 shares	96,236,220	
Issued, 1955—9,604,230 shares		96,042,300
	175,000,000	175,000,000
Earnings Retained for requirements of the business (Note C)	232,287,575	203,844,437
	407,287,575	378,844,437
Less cost of Preferred Stock, 3.60% Series, in Treasury (65,166 shares in 1956; 43,135 shares in 1955)	5,458,379	3,642,289
TOTAL CAPITAL AND EARNINGS RETAINED	401,829,196	375,202,148
	$659,393,945	$611,641,113

R. J. REYNOLDS TOBACCO COMPANY

STATEMENT OF EARNINGS

Year Ended December 31, 1956
—with Comparative Figures for 1955

	1956	1955
NET SALES	$957,366,846	$866,425,772
OTHER INCOME	51,630	15,067
TOTAL INCOME	957,418,476	866,440,839
LESS:		
Cost of goods sold, selling and general expenses, exclusive of items below	810,263,229	736,797,675
Provision for depreciation and obsolescence	5,059,382	4,171,320
Interest and debt expense	4,993,185	4,203,621
Provision for Federal and state taxes on income	75,190,000	68,000,586
TOTAL INCOME DEDUCTIONS	895,505,796	813,173,202
NET EARNINGS FOR YEAR	$ 61,912,680	$ 53,267,637
Dividends paid on Preferred Stock	$ 2,762,959	$ 2,794,023
NET EARNINGS APPLICABLE TO COMMON STOCKS	$ 59,149,721	$ 50,473,614

STATEMENT OF EARNINGS RETAINED

Year Ended December 31, 1956
—with Comparative Figures for 1955

	1956	1955
EARNINGS RETAINED for requirements of the business—at beginning of year	$203,844,437	$179,108,009
ADD:		
Net Earnings for year	61,912,680	53,267,637
	265,757,117	232,375,646
DEDUCT:		
Cash dividends—		
Preferred Stock		
3.60% Series	1,592,959	1,624,023
4.50% Series	1,170,000	1,170,000
Common stocks at $3.10 per share for 1956 ($2.60 per share for 1955)	30,706,583	25,737,186
	33,469,542	28,531,209
EARNINGS RETAINED for requirements of the business—at end of year (Note C)	$232,287,575	$203,844,437

NOTES TO FINANCIAL STATEMENTS—DECEMBER 31, 1956

NOTE A: The principal payments required annually with respect to the 2½% Promissory Notes and the 3% Debentures, due October 1, 1973, are as follows: 1957, $5,000,000; 1958-1965, $6,000,000; 1966-1972, $7,000,000; 1973, $13,000,000.

NOTE B: Of the authorized but unissued shares of New Class B Common Stock, 376,378 shares are reserved for issuance upon exchange of shares of Common Stock pursuant to the Exchange Option to Holders of Common Stock set forth in the Company's Certificate of Incorporation as amended. Of the 9,623,622 shares of issued New Class B Common Stock, 94,094½ shares are held for exchange pursuant to said Exchange Option to Holders of Common Stock.

NOTE C: The 2½% Promissory Notes and the Indenture under which the 3% Debentures are issued contain certain restrictions as to the declaration of dividends (other than stock dividends) on the common stocks of the Company and as to the purchase, redemption or retirement of shares of its stock. At December 31, 1956, the part of Earnings Retained not affected by these restrictions was $178,821,927.

R. J. REYNOLDS TOBACCO COMPANY, ITS DIRECTORS AND STOCKHOLDERS

We have examined the statement of financial position of R. J. REYNOLDS TOBACCO COMPANY as of December 31, 1956, and the related statements of earnings and of earnings retained for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We were present when inventories were taken by the Company and checked procedures followed in determining quantities and valuation.

In our opinion, the accompanying statement of financial position and statements of earnings and of earnings retained present fairly the financial position of the Company at December 31, 1956, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST,

Certified Public Accountants

Winston-Salem, N. C.

January 18, 1957

R. J. R.

R. J. Reynolds Tobacco Company

BOARD OF DIRECTORS

JOHN C. WHITAKER	*Chairman of Board of Directors and Chairman of Executive Committee*
E. A. DARR	*President*
BOWMAN GRAY	*Executive Vice President*
H. N. HARDY	*Vice President*
H. S. KIRK	*Vice President*
W. J. CONRAD	*Vice President and Secretary*
A. H. GALLOWAY	*Vice President and Treasurer*
W. T. SMITHER	*Manager Advertising Department*
R. G. VALLANDINGHAM	*Superintendent of Leaf Buying*
H. H. RAMM	*General Counsel*
S. M. SCOTT	*Comptroller*
S. B. HANES, JR.	*Superintendent of Leaf Processing*
WILLIAM R. LYBROOK	*Associate Counsel*
KENNETH H. HOOVER	*Director of Research*
ROBERT M. HANES	*Honorary Chairman, Board of Directors, Wachovia Bank and Trust Company*
CHAS. B. WADE, JR.	*Personnel Manager*

REGISTRAR

The Hanover Bank
70 Broadway,
New York 15, N. Y.

TRANSFER AGENTS

The Chase Manhattan Bank
40 Wall Street,
New York 15, N. Y.

The First National Bank
of Jersey City
1 Exchange Place,
Jersey City 3, N. J.

R. J. REYNOLDS TOBACCO COMPANY